There is a Rational Basis for Rent Stabilization in College Park, Maryland

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Executive Summary

A review of available literature coupled with an analysis of College Park-specific data strongly suggests that there is a rational basis for a rent stabilization program in the City of College Park. The Program is likely to be conducive to the following desired policy outcomes:

- stable rents that promote housing affordability;
- enhanced homeownership; and
- fewer violations of the City Code.

<u>Background</u>

Sage Policy Group, Inc. (SPG) was asked to determine whether a rational basis for rent stabilization exists in the City of College Park. Factors considered by SPG include rent trends, the acceleration of conversion of owner-occupied single-family housing to rental units, and the concentration of Code violations in the single-family residential rental stock. SPG also conducted an extensive literature review documenting the impact of rent stabilization efforts in other markets.

The rent stabilization program will be designed to achieve or promote the realization of the following goals:

- encourage the availability of housing for households of all income levels;
- preserve, maintain and improve existing housing; and
- strengthen College Park neighborhoods by reducing the number of single-family homes that become rental properties.

The draft rent stabilization program established in the draft ordinance would create a Rent Stabilization Board composed of seven members appointed by the Mayor and City Council. Among the Board's principal duties would be to determine and set rent levels fairly and equitably, require registration of all rental units, and make adjustments to the rent ceiling.

The rent stabilization program will apply to single-family homes that have been or will be converted to rental units. Numerous housing categories are exempt.

<u>Findings</u>

Regional college towns consistently share a set of housing challenges. In College Park, MD, Charlottesville, VA and Chapel Hill, NC, there is a pattern of declining homeownership, diminished housing affordability, and rising code violations. For instance, in Charlottesville, owner-occupied units declined fully 38 percent over an eight-year period.[1] In Chapel Hill, only 18 percent of homes sold in the area were deemed

[1] Rubin, D. "City fights to keep local homeowners." Cavalier Daily, September 1999.

affordable in 2003.[2] Chapel Hill also reports that nearly a third of its nuisance complaints occurred in rental conversions most proximate to the central part of campus.[3] College Park's draft rental stabilization program attempts to deal with these trends directly by creating greater incentive to maintain housing as owner-occupied and by limiting annual rates of rent increase.

Declining Homeownership in College Park

The City of College Park has experienced a decline in homeownership rates over the past four years. Estimates for 2004 indicate that 57.4 percent of the City's occupied units are owner-occupied, down from 59.2 percent in 2000.[4] Consequently, renter occupied units in College Park have increased from 40.8 percent in 2000 to 42.6 percent in 2004.

College Park's current 57.4 percent homeownership rate is lower than current rates for Prince George's County (63.1%), Maryland (68.8%) and the United States (69.2%).[5] By reducing the incentive to convert owner-occupied housing into rental housing, the draft rent stabilization program supports higher homeownership by promoting greater supply of housing stock available for owner-occupancy.

Reinforcement of homeownership is arguably the most compelling aspect of the College Park draft rent stabilization program. As is the case in all large university towns, College Park's ability to house its student population is of paramount concern. However, policymakers should identify ways to house students that generate the least social opportunity cost (i.e., the cost of low owner occupancy).

Recent trends indicate that students are increasingly being housed in formerly owner-occupied housing. From a social perspective, housing students in this manner is inefficient. The broader community suffers the social cost of diminished homeownership; a loss that the market transaction fails to capture.

Rather than forego the social benefits of broad homeownership, College Park should consider policies that allow students to occupy units developed specifically for rental purposes. This strategy would minimize the opportunity cost of foregone owner occupancy. If enacted, the draft rent stabilization program would contribute to minimizing this social opportunity cost, thereby unleashing greater efficiencies in College Park, Maryland's housing market.

Rents are Higher in College Park, MD

Although College Park's median household income is lower than that of Prince George's County, the Washington, D.C. Metropolitan Area and Maryland, the City's average rent is higher. U.S. Census data indicate that median monthly rent in College Park was $791

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[2] Chapel Hill Community Indicators 2004 Data Book at page S-5.
[3] Chapel Hill Community Indicators 2004 Data Book at page S-8.
[4] ACCRA fka American Chamber of Commerce Researchers Association.
[5] Id.

in 2000.[6] This compares to $700/month in Prince George's County, $763/month in the Washington, D.C. MSA[7] and $620/month in Maryland.

The share of units that rent for $1,000 or more a month is also higher in College Park. Roughly 30 percent of College Park's rental units rented for $1,000 or more a month in 2000,[8] up from 10 percent in 1990. This compares to a 7.4 percent share in Prince George's County, a 19.7 percent share in the D.C. Metro area and a 9.2 percent share in Maryland. College Park's rent stabilization program promotes the ongoing presence of a stock of housing that is affordable to students and permanent residents alike.

Code Violations are Concentrated in the Residential Rental Stock

In 2004, the average number of first notice violations per residential rental unit was 0.78. Owner occupied units reported roughly 0.21 first notice code violations per unit in 2004. On a per unit basis, therefore, residential rental units generate 3.7 times more violations than owner occupied ones. By limiting the number of residential rental conversion, the City of College Park's rent stabilization program will likely contribute to fewer violations and thereby reduce the cost of code enforcement.

The Literature on Rent Stabilization is Inconclusive

Though available literature focused on rent stabilization is in short supply, the literature that exists is highly contradictory. Although there is research to support the notion that rent stabilization produces diminished housing maintenance, diminished levels of new construction and diminished tax revenues, there is credible, peer-reviewed research that rebuts each of these conclusions.

Leading researchers in the field find no consistent relationship between controlled and uncontrolled markets with respect to the quality of housing maintenance. Kutty (1996) found that in certain instances, housing maintenance could actually be greater in controlled housing stock.

Moreover, the draft College Park plan includes several provisions that reduce the potential negative impact on housing maintenance. These provisions include Board consideration of landlord cost of maintenance and landlord rate of return.

Downs (1988)[9] concludes that there is "no persuasive evidence that [rent] controls significantly reduce construction."[10] Some researchers believe other factors, including cyclicality in the local economy, provide better explanations for shifts in the pace of construction over time.[11]

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[6] 2000 data are the most current reliable data available.
[7] Metropolitan Statistical Area.
[8] Id.
[9] Anthony Downs is Senior Fellow at the Brookings Institution.
[10] Downs, A. (1988). *Residential Rent Controls: An Evaluation*. Urban Land Institute.
[11] Arnott, R. (1995) at p. 112

It should be noted that College Park's draft rent stabilization program will exempt most forms of new construction. The Program will specifically exempt apartment buildings, rental units in any college or school dormitory operated exclusively for educational purposes, and hotels, motels and inns (§127-2B-E). The rent stabilization program would primarily affect already constructed housing and therefore its impact on the level of new construction is likely to be minimal.

Because the impact of rent stabilization on housing maintenance and the level of new construction is unclear, no prediction can be made with respect to its impact on local tax revenues. Indeed, to the extent that the rent stabilization program produces greater home ownership, the Program may actually increase residential values by promoting greater investment in owner-occupied units and by generating an environment with fewer Code violations.

A. Introduction

Purpose

Sage Policy Group, Inc. (SPG) was asked to determine whether a rational basis for rent stabilization exists in the City of College Park. The City is currently contemplating whether to introduce a rent stabilization program. The City has developed a draft ordinance that outlines the features and parameters of a possible rent stabilization program. SPG used this draft ordinance to help frame relevant issues.

Potential factors considered by SPG include rent trends, the acceleration of conversion of owner-occupied housing to rental units, and the concentration of Code violations in the residential rental stock. SPG also conducted an extensive literature review documenting the impact of rent stabilization efforts in other markets.

The City of College Park's Draft Rent Stabilization Program

The draft program is outlined in a document marked "For Discussion Purposes Only" (2004), and includes proposed amendments to the City of College Park's Code.[12] These amendments would affect Chapters 15, 127 and 110. These amendments are summarized below:

Chapter 15 – Boards, Commissions and Committees

The rent stabilization program would create a Rent Stabilization Board composed of seven members appointed by the Mayor and City Council. Each of the city's four council districts would be represented. At least two members of the Board should be tenants and two should be landlords. Board members shall be appointed to three-year terms, though initially term lengths will vary in order to stagger board membership. Five commissioners shall constitute a quorum for the board. The affirmative vote of four members of the board is required for a decision, including all motions, rules, regulations, and orders of the board.[13]

Among the principal duties of the Board would be to "determine and set rent levels, whether through general or individual adjustments, of any unit" subject to the Ordinance.[14] The Board shall also "require registration of all rental units" subject to the Ordinance.[15] The Board is also to make adjustments in the rent ceiling in accordance

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[12] The document is distinguished by a preamble that reads, "Ordinance of the Mayor and Council of the City of College Park Maryland, Amending City Code, Chapter 15 "Boards, Commissions and Committees" to Add Article IX to Create a Rent Stabilization Board, Enacting City Code, Chapter 127 "Rent Stabilization" to Establish a Rent Stabilization Program in the city of College Park, and Amending City Code, Chapter 110 "Fees and Penalties" to Establish the Fees and Penalties Associated with the Rent Stabilization Program". For purposes of this discussion, the document shall be referred to as "The Ordinance".

[13] Ordinance, p. 10.

[14] Id. at p. 8-9.

[15] Id. at 9

with §127, act fairly and equitably in view of and in order to achieve the purposes of §127, and report annually to the Mayor and City Council on the status of rental housing units covered by §127.

Chapter 127 – Rent Stabilization

Among the stated purposes of Chapter 127 are:

- To encourage the availability of housing for households of all income levels, and to preserve, maintain and improve existing housing;
- To strengthen College Park neighborhoods by reducing the number of single-family homes that are rental properties; and
- To encourage private investment by homeowners consistent with a neighborhood's character.

The stated motivation of the Ordinance is to counter a pattern of "steadily rising rents" and a "shortage of affordable well-maintained housing".[16] The language of the Ordinance also refers to the "rate of deterioration of the existing housing stock" and that this situation "poses a threat to the public health, safety and welfare of the citizens of the City of College Park".[17]

Chapter 127 applies to all real property that is being rented or is available for rent for residential purposes in whole or in part with the following exceptions:

- property owned by the State of Maryland or the Federal Government;
- rental units that are rented primarily to transient guests for use or occupancy for fewer than fourteen consecutive days in establishments such as hotels, motels, inns, tourist homes, and rooming and boarding houses; however, the payment of rent every fourteen days or fewer shall not by itself exempt any unit from coverage by this chapter;
- rental units in any college or school dormitory operated exclusively for educational purposes;
- nursing home or charitable home for the aged, not organized or operated for profit; and
- apartment buildings (containing 3 or more dwelling units; does not include a triplex, quadraplex or fraternity/sorority house).[18]

For properties that are not exempt, Chapter 127 establishes the criteria for setting the maximum per month rent which may be charged in a given year.[19]

An annual rent stabilization allowance would be established effective on July 1 of each year. The allowance shall equal one hundred percent of the consumer price index as

[16] Id. at 13.
[17] Id.
[18] Id. at 14.
[19] Id. at 17.

specified in the Department of Public Services' regulations. The rent stabilization allowance would apply to all rent units subject to this chapter.

Landlords and tenants may petition the Board to adjust the rent ceiling of an individual controlled unit. The Board shall conduct a hearing regarding a petition for individual adjustments of the rent ceiling. No individual rent ceiling adjustment will be granted unless "supported by the preponderance of the evidence submitted at the hearing".[20]

In its deliberations, the Board is to consider all relevant factors, including but not limited to:

- increases or decreases in property taxes;
- unavoidable increases or any decreases in maintenance and operating expenses;
- the cost of planned or completed capital improvements to the rental unit (as distinguished from ordinary repair, replacement and maintenance) where such capital improvements are necessary to bring the property into compliance or maintain compliance with applicable local code requirements affecting health and safety, and where such capital improvement costs are properly amortized over the life of the improvement;
- increases or decreases in the number of tenants occupying the rental unit, living space, furniture, furnishings equipment, or other housing services provided or occupy rules;
- substantial deterioration of the controlled rental unit other than as a result of normal wear and tear;
- failure on the part of the landlord to provide adequate housing services, or to comply substantially with applicable state rental housing laws, local housing, health and safety codes, or the rental agreement;
- the pattern of recent rent increases or decreases;
- the landlord's rate of return on investment. In determining such return, all relevant factors, including but not limited to the following shall be considered: the landlord's actual cash down payment, method of financing the property, and any federal or state tax benefits accruing to landlord as a result of ownership of the property;
- whether or not the property was acquired or is held as long-term or short-term investment; and
- whether or not the landlord has received rent in violation of the terms of this chapter or has otherwise failed to comply with the chapter.

Chapter 127 states that "it is the intent of this chapter that individual upward adjustments in the rent ceilings on units be made only when the landlord demonstrates that such adjustments are necessary to provide the landlord with a fair return on investment."[21] Chapter 127 also states that whenever the Public Services Director determines there are reasonable grounds to believe that there has been a violation of any provision of the rent

[20] Id. at 24.
[21] Id. at 26-28.

stabilization program, notice shall be given to the person or persons responsible. The Public Services Department is authorized to seek injunctive relief if the situation warrants.[22]

Chapter 110 – Fees and Penalties

The Ordinance allows for the following fees.

- §127-5: Registration Fee
- §127-8: Fee for Petitions for Individual Adjustments of Rent Ceilings & Fee for Appeal of Board Decision to the Mayor and City Council

[22] Id. at 31-32.

B. Relevant Residential Attributes of and Trends in College Park, Maryland

Status as a University Town

College Park, Maryland is home to one of the most recognized public universities in the United States, the University of Maryland at College Park (UMCP). Enrollment at UMCP for the fall of 2004 totaled 34,933, up from 34,801 students in fall 2002. Approximately 72 percent (25,140) of total students in 2004 were undergraduates.[23]

According to the University, roughly 8,095 (33%) undergraduates live in on-campus dormitories or apartments. The remaining 17,045 students live off-campus and commute to school.[24] The number of University of Maryland students who live off-campus but reside in the City of College Park is unclear. College Park's 2004 population is estimated at 26,002.[25]

Estimates for 2004 indicate that roughly 27 percent of College Park's population is between 20 and 24 years of age. Prince George's County's share of 20 to 24 year olds is estimated at 7.1 percent for 2004. Maryland's share is estimated at 6.4 percent.

Homeownership Rates are Lower in College Park

Estimates for 2004 indicate that roughly 57.4 percent of College Park's occupied housing units are owner occupied, with 42.6 percent renter occupied. Ownership rates in College Park have fallen over the past four years, with owner occupied housing units making up 59.2 percent of all housing units in 2000 (with 40.8 percent being renter occupied).[26]

Opposing trends have been experienced in Prince George's County, in Maryland and in the United States. In 2000, Prince George's County reported a 61.8 percent ownership rate and 38.2 percent renter occupied rate. By 2004, the County's homeownership rate is estimated to have risen to 63.1 percent, with the renter occupied share falling to 36.9 percent (please see Table 3).

Maryland also experienced an increase in owner occupied units and a decrease in renter occupied units over the past four years. Ownership rates in Maryland are estimated to have increased from 67.7 percent in 2000 to 68.8 in 2004. Correspondingly, renter occupied rates in Maryland are estimated to have declined from 32.3 percent in 2000 to 31.2 percent in 2004. The 2004Q4 homeownership rate estimate for the nation is 69.2 percent, up from 68.6 percent in 2003Q4. The table below shows the comparison of housing unit breakdown for College Park, Prince George's County and Maryland between 2000 and 2004.

[23] University of Maryland, College Park.
[24] Id.
[25] ACCRA data subscribed to by SPG.
[26] ACCRA data subscribed to by SPG.

Table 1: Housing Unit Breakdown in College Park, Prince George's County and Maryland, 2000 vs. 2004 Estimates[27]

Area	Owner Share of Occupied Housing Units-2000	Owner Share of Occupied Housing Units-2004 Estimates	Renter Share of Occupied Housing Units-2000	Renter Share of Occupied Housing Units-2004
College Park, MD	**59.2%**	**57.4%**	**40.8%**	**42.6%**
Prince George's County	61.8%	63.1%	38.2%	36.9%
Maryland	67.7%	68.8%	32.3%	31.2%

While the total number of owner-occupied units has been increasing in College Park, this rate of increase has fallen short of the corresponding renter-occupied unit increase. Between 2000 and 2004, owner-occupied units are estimated to have increased 7.9 percent while renter-occupied units grew 16.3 percent. This trend toward renter-occupied housing in College Park is of recent origin. Between 1990 and 2000, total renter-occupied housing units decreased 3.6 percent while owner-occupied units increased 3.4 percent over the same time period.

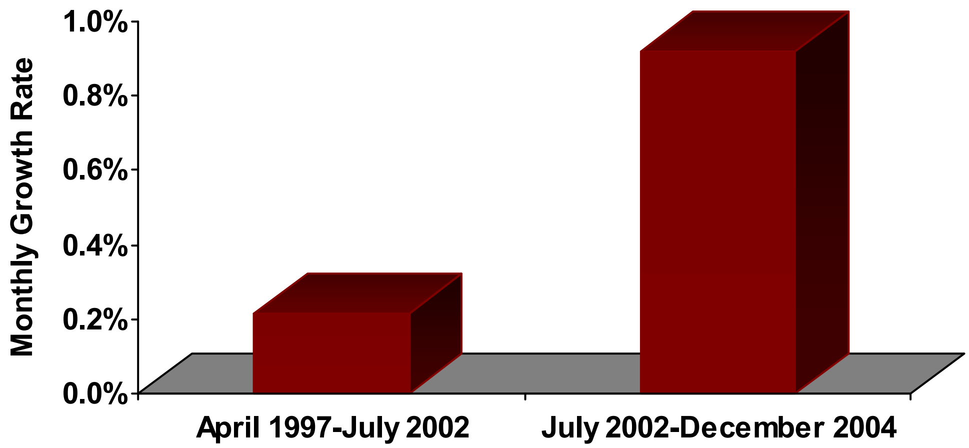
Rental Conversions are Accelerating

According to the most recent data from the City of College Park (December 1st, 2004), there are currently 970 single-family homes being utilized as rental units, which equates to roughly 15 percent of the City's estimated occupied housing units in 2004.[28] From April 1997 to December 2004, the number of single-family rental units increased roughly 49 percent. The greatest increase in rental conversions has been over the past two years, with a monthly growth rate of 0.92 percent between July 2002 and December 2004. The monthly growth rate of rental conversions between April 1997 and July 2002 was approximately 0.21 percent.

[27] ACCRA data subscribed to by SPG.

[28] City of College Park Code Enforcement Division; ACCRA data subscribed to by SPG.

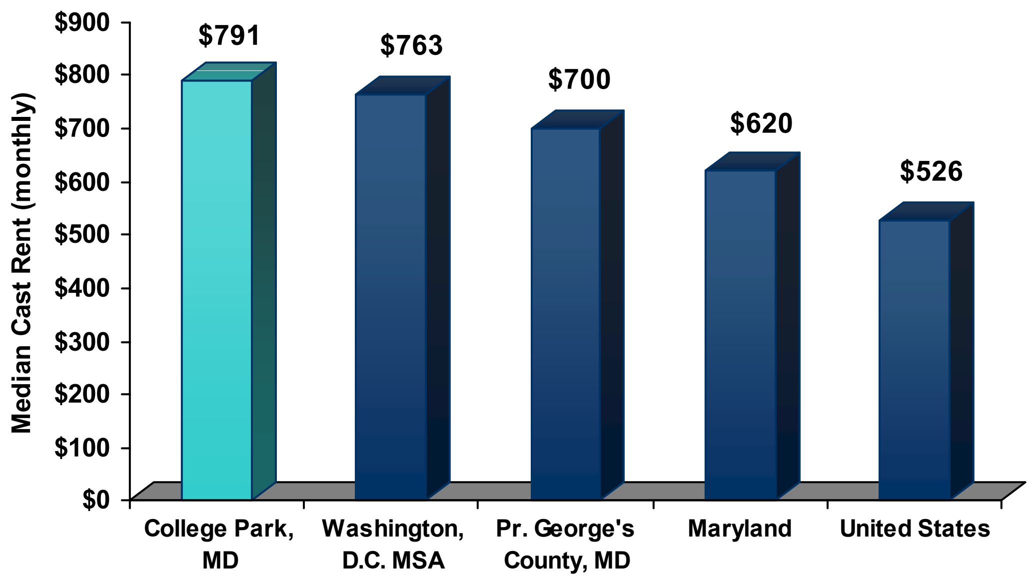
Figure 1: Monthly Growth Rate of Rental Conversions in College Park, April 1997-July 2002 vs. July 2002-December 2004



Housing Affordability is Lower in College Park, MD

According to U.S. Census data, median rent in College Park in 1990 was $650 a month. By 2000, median monthly rent increased roughly 22 percent to $791 a month. College Park's median monthly rent was higher than that of Prince George's County, Maryland, the Washington, D.C. Metro, and the nation in 2000 (please see Figure 2).[29]

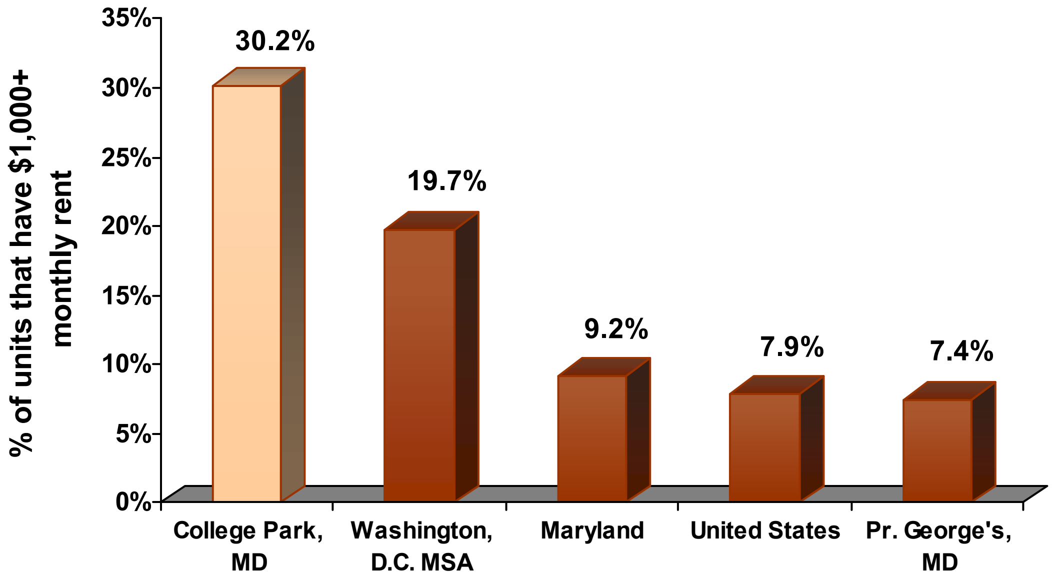
Figure 2: Median Monthly Cash Rent in 2000, College Park, Prince George's County, Maryland, Washington D.C. MSA and the United States



[29] 2000 data are the most current reliable data available.

Although the median rent in College Park was $791 a month in 2000, a significant portion of monthly rents exceeded $1,000 a month. In 1990, College Park reported that approximately 10 percent of all renter-occupied units rented at or above $1,000 a month. By 2000, the share of rental units renting for $1,000 plus increased to 30 percent. This share of high-rent units is much higher than corresponding county, state, metro and national data (please see Figure 3).[30]

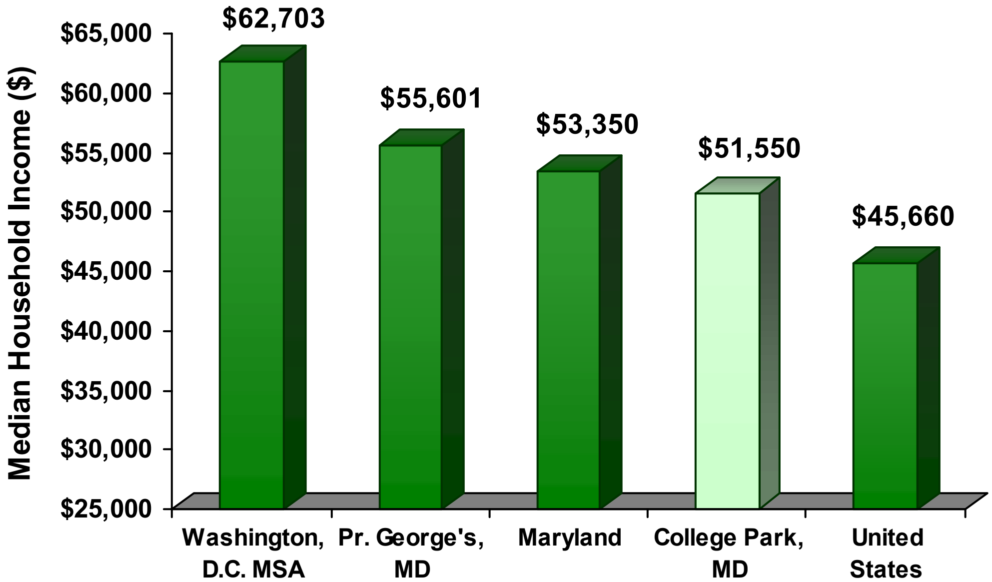
Figure 3: Percentage of Renter-Occupied Units that Rent for $1,000+ a Month in 2000, College Park, Prince George's County, Maryland, Washington, D.C. MSA and the United States[31]



Although monthly rent and the share of high-rent units for College Park was higher than all areas listed above, median household income was less than that of every comparison geographic area with the exception of the nation. In 2000, College Park reported a median household income of $51,550. Median household income data for College Park, Prince George's County, Maryland, the Washington, D.C. metro and the nation are presented in Figure 4 below.

[30] U.S. Census Bureau; ACCRA data subscribed to by SPG. 2000 data are the most current reliable data available.
[31] ACCRA data subscribed to by SPG.

Figure 4: Median Household Income in 2000, College Park, Prince George's County, Maryland, Washington, D.C. MSA and the United States[32]



Rents in College Park differ between apartment rentals and single-family converted rentals. According to the University of Maryland's off-campus housing department, typical rent for students living in an apartment in a single-family home is $100 to $800 less a month than renting a 1-bedroom apartment in an area apartment complex. Table 2 provides general monthly price ranges for apartments in the College Park area.

Table 2: Typical College Park Area Rents by Type, 2004[33]

Type	Typical Monthly Rent
1 Bedroom Apartment	$700-$1,700
2 Bedroom Apartment	$900-$1,800
3 Bedroom Apartment	$1,200-$2,000
Efficiency/Studio	$600-$900
Apartment in a House	$600-$900
Vacant House	$1,200-$4,000
Room in a House	$300-$650

A scan of the University of Maryland's off-campus housing database provided even more insight into the monthly rent differential between units in apartment buildings and units in single-family homes. A market scan of 100 rental listing indicated that the average

[32] Id.
[33] University of Maryland, College Park Off-Campus Housing Services. Ranges are based on actual prices from the University's online housing database. These prices are typical; rents will vary based on location and amenities.

monthly rent per unit in a single-family home was $342 less a month than in an apartment complex (please see Table 3).[34]

Table 3: Findings from Market Scan of Rental Listings in College Park, MD

Type of Housing	Average Monthly Rent per Unit
Apartment	$809
House	$467

<u>Quality of Life – Code Violations are More Concentrated among Residential Rental Units</u>

Residential rental units in College Park have experienced more code violation notices in absolute terms and on a per unit basis over the past two years than owner occupied units. In 2003, the total number of first notice code violations for residential rental units in College Park was 629, with the largest portion being grass and trash violations. During the same year, owner occupied units experienced 421 code violations, with grass and trash also being the most common violation. For 2003, rental units made up roughly 60 percent of the City's code violations. A breakdown of the number of code violations by type for rental and owner-occupied units for 2003 is presented in Table 4 below.

Table 4: 2003 First Notice Code Violations by Type and Housing Breakdown, College Park. MD

Code Violation	Residential Rental	Owner-Occupied
Grass and Trash	223	172
Inoperable Vehicles	39	93
Vehicle Parked in Grass	33	26
Graffiti	2	0
Toters	84	23
Trash Out Early	70	22
Illegal Signs	1	1
Litter	115	3
Dumpster	0	0
Miscellaneous	38	59
Zoning Violations	24	22
Total	**629**	**421**

Residential rental units also reported more first notice code violations than owner-occupied units in 2004. In 2004, residential rental units experienced 879 first notice code violations, with a large portion being grass/trash and litter violations. During the same year, owner occupied units reported 791 code violations, with the largest amount being inoperable vehicle violations. For 2004, rental units made up roughly 53 percent of the City's code violations. A breakdown of the number of code violations by type for rental and owner-occupied units for 2004 is presented in Table 5 below.

[34] University of Maryland, College Park Off-Campus Housing Services, online search listings.

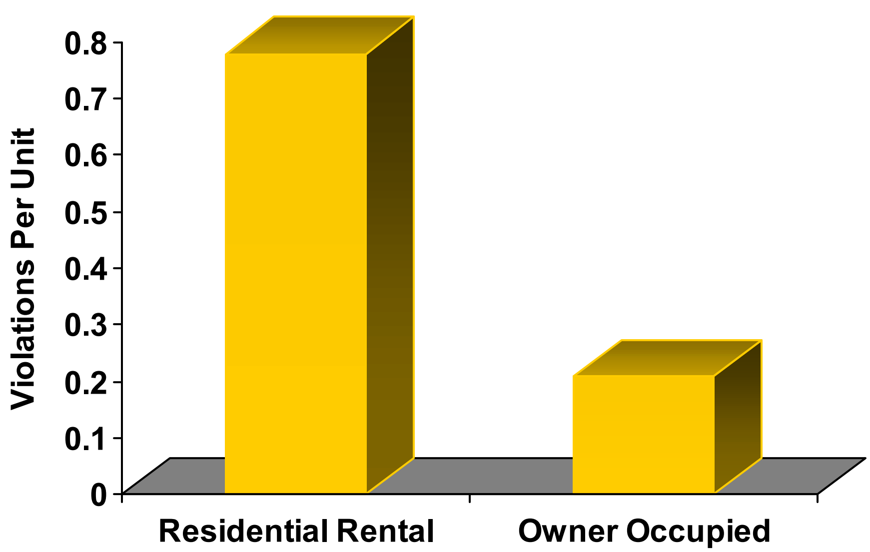
Table 5: 2004 First Notice Code Violations by Type and Housing Breakdown, College Park, MD

Code Violation	Residential Rental	Owner-Occupied
Grass and Trash	249	191
Inoperable Vehicles	59	202
Vehicle Parked in Grass	34	42
Graffiti	3	1
Toters	277	192
Trash Out Early	10	43
Illegal Signs	0	0
Litter	158	8
Dumpster	1	0
Miscellaneous	72	79
Zoning Violations	16	33
Total	**879**	**791**

Total code violations for 2003 and 2004 were 2,720, with residential rental units reporting 55 percent of violations.

These data can be converted to violations on a per unit basis. In 2004, residential rental units reported roughly 0.78 first notice code violations per unit. Owner-occupied units experienced roughly 0.21 first notice code violations per unit during the same time period.

Figure 5: 2004 First Notice Code Violations per Unit, College Park, MD



C. The Rent Stabilization Debate

Economists consistently express a negative view toward rent stabilization. Unfortunately, because most economists are preconditioned to find price stabilization objectionable, available research on the subject is in shorter supply than might be anticipated. When economists actually take the time to analyze the impacts of rent stabilization, the collective conclusion is decidedly mixed.

There are of course articles and publications that conclude that rent stabilization is problematic. For instance, in a 1996 article, "The High Cost of Rent Control", the National Multi Housing Council identified several principal economic objections to rent stabilization that economists consistently express. Among these are the following.

- Deterioration of Existing Housing: reducing the return on investment could lead to a drop in the quality of controlled apartments or condominiums. Landlords, faced with declining revenues, may reduce maintenance or repair of existing housing;
- Inhibition of New Construction: by forcing rents below market price, profitability of renting decreases, driving new investment and construction away; and
- Reduced Property Tax Revenues: reducing market value of controlled property reduces the tax assessment of the property.

The College Park draft ordinance has been structured to combat each one of these objections. Discussion of relevant ordinance features can be found in Section E. Research Implications. Moreover, although many economists make these claims, studies seeking to prove these rent stabilization implications are scarce, inconsistent and generally refer only to the impacts of first-generation rent controls.

<u>The Relationship between Rent Stabilization and Housing Maintenance is Unclear</u>

Many economists assert that rent stabilization leads to deterioration of a community's housing stock. This predicted or perceived deterioration is a function of the lower return on investments enjoyed by landlords in the presence of rent regulations. As a result, there are fewer resources available for maintenance and improvement of properties, and also a diminished incentive to make such investments.

Block (1993) contends that tenants "receive no real rental bargain" due to the lack of maintenance and poor repairs in a controlled housing market.[35] Block states that in a regulated housing market, landlords "lack the best will" and any incentives to keep buildings properly maintained.

Empirical studies attempting to analyze claims such as these present unclear and sometimes contradictory findings. Pollakowski (1999) attempted to measure how rent

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[35] Block, W. "Rent Control" The Concise Encyclopedia of Economics. Library of Economics and Liberty. Retrieved January 19, 2005 from the World Wide Web: http://www.econlib.org/library/Enc/RentControl.html

regulation affects housing maintenance in New York City.[36] He begins by acknowledging that existing research pertaining to rent stabilization and housing maintenance provides "partial and often ambiguous findings".[37] In his analysis, Pollakowski studies three types of structures in six New York City communities: regulated housing built before 1947, regulated housing built after 1947, and unregulated housing. For each of these dwelling types, he measured the incidence of three or more maintenance deficiencies. His results are presented below.

Table 6: Incidence of Three or More Maintenance Deficiencies by Community and Regulation Status, 1993, Pollakowski Study

Community	Regulated Pre-1947	Regulated Post-1947	Unregulated
Bronx	34.5%	16.4%	7.8%
Brooklyn	27.8%	15.4%	11.6%
Lower/Mid Manhattan	13.6%	5.5%	8.6%
Upper Manhattan	39.3%	11.7%	30.8%
Queens	14.2%	10.7%	6.8%
Staten Island	28.4%	10.1%	2.2%

Pollakowski found that regulated pre-1947 housing experienced the most maintenance deficiencies in all six geographic breakdowns. The year 1947 is a focal point because rental units built prior to1947 in New York City were the only units in the US subject to first-generation rent controls after World War II. Therefore, these results are not surprising given the fact that almost every economist agrees that first-generation rent controls are harmful to local housing markets. They are also not surprising given the fact that older homes tend to have more housing deficiencies in general, which Pollakowski points out in his study. He states that age of dwellings "must be taken into account…" but does not include this factor in his quantitative analysis.[38] Pollakowski also finds that pre-1947 regulated tenants tend to have "considerably lower" incomes than post-1947 occupants.[39]

The comparison between post-1947 regulated and unregulated dwellings is therefore the most significant. A key finding of Pollakowski's is the inconsistent concentrations of three or more maintenance deficiencies across the six defined areas. Post-1947 regulated dwellings experienced more deficiencies in the Bronx, Brooklyn, Queens and Staten Island. However, unregulated dwellings experienced more maintenance deficiencies in Lower/Mid Manhattan and Upper Manhattan. Pollakowski attributes some of these differences to diverse dwelling and occupant characteristics (including median household income and race), and states that other reasons/characteristics that may influence the maintenance deficiency numbers must be further analyzed.[40]

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[36] Pollakowski, H. (1999). *Rent Regulation and Housing Maintenance in New York City*. Massachusetts Institute of Technology Center for Real Estate, sponsored by the National Multi Housing Council.
[37] Id. at 3.
[38] Id. at 11.
[39] Id. at 11.
[40] Id. at 31.

Kutty (1996) also attempts to measure the impacts of rent regulation on a landlord's decision to reinvest in housing maintenance.[41] Unlike Pollakowski, Kutty focuses on different types of rent regulations rather than on varying characteristics. Her report analyzes both first-generation and second-generation rent controls. Kutty analyzes rent regulations in twelve different contexts, most of which can be found in Europe and North America.

Table 7: Results of Kutty Analysis

Case	**Results**
A. Simplistic	Maintenance is lower
B. Rent control as a rent ceiling	
B1. Permanent	Maintenance is either lower or just enough to meet codes-ambiguous
B2. Temporary	Higher maintenance may occur-ambiguous
B3. Adjustment based on housing services	Maintenance is the same as in the absence of rent control
B4. Adjustment based on housing services since previous period	Maintenance level is lower than in B3, but higher than in B1-ambiguous
B5. Adjustments based on a set increase	Maintenance is the same as in B1, but landlord revenues are higher-ambiguous
B6. Fixed rate of return on maintenance Expenditures	Maintenance is higher than under B5 & B1-ambiguous
B7. Side payments for maintenance	Maintenance is usually lower than in the absence of rent control, but higher than B1-ambiguous
B8. Tenant maintenance	Maintenance may be higher than in the absence of rent control-ambiguous
B9. Building code enforcement	Maintenance may be higher than in the absence of rent control-ambiguous
C. Rent control as a price ceiling	Maintenance is lower than in the absence of price control

A major finding of Kutty's analysis is that specific features of rent regulations "significantly affect" the impact rent control will have on housing maintenance and the quality of dwellings.[42] Kutty estimates that some rent controls negatively affect maintenance, some do not affect maintenance, and some may even produce higher levels of maintenance.[43] Kutty concludes, therefore, that the impact of rent stabilization on housing maintenance is "theoretically" unclear.[44]

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[41] Kutty, N. (1996). *The Impact of Rent Control on Housing Maintenance: A Dynamic Analysis Incorporating European and North America Rent Regulations*. Housing Studies, 11(1), 20pgs.
[42] Id.
[43] Id.
[44] Id.

The Relationship between Rent Stabilization and the Level of New Construction is Unclear

Another widely held view is that rent stabilization discourages new construction. This view is particularly relevant to first-generation rent controls since many second-generation regulations exempt new construction.[45] Some observers believe, however, that even with the new construction exemption, rent regulations may frustrate new construction because of investor fear of future controls.

However, relevant literature related to the impact of rent stabilization on the level of new construction is mixed and therefore unclear. The ambiguity of the impact that rent stabilization has on housing maintenance and new construction implies that the impact of rent stabilization on property tax revenues is also unclear. One of the major sources of opposition to rent stabilization has been the view that property tax revenues decline as housing deteriorates, assessments fall, and new construction slows. The study team finds no conclusive evidence that rent stabilization necessarily leads to diminished property tax revenue collection.

In fact, it is possible that there is a countervailing factor. Homeowners in communities with high and stable homeownership may be more willing to invest in their properties. This would have the affect of increasing home values, property assessments and tax revenues.

D. Housing Issues in Communities with Large Universities

Although many communities home to large universities face serious housing issues, little empirical analysis on the subject is available. Many have written about college town housing issues in a non-empirical manner. Axel-Lute (2001) explains that housing markets look very different in college towns. She states that many investors prefer to rent out an older "ramshackle" building/house to several students rather than renting to a single family, because there is a much bigger return on investment.[46]

Although there is no specific analysis to address the housing issues that college towns face, residents and policymakers of many college towns have opined on the issues facing their housing markets. Issues generally center on homeownership trends, housing affordability, code violations, nuisance complaints, etc.

Charlottesville, Virginia, home to the University of Virginia, is a prime example of a college town facing a variety of housing issues. Charlottesville officials have expressed concerns over homeownership in the area. The Charlottesville Director of Strategic Planning, in a 1999 article, stated that owner-occupied units in the area dropped 38 percent from 1990 to 1998.[47] The problem, Vice Mayor Meredith Richards explains, is

[45] Glaeser, E. (2002). *Does Rent Control Reduce Segregation?* Harvard Institute of Economic Research, Discussion Paper Number 1985.
[46] Axel-Lute, M. (2001). *Tales of Three Cities*. The National Housing Institute.
[47] Rubin, D. "City fights to keep local homeowners." Cavalier Daily, September 1999.

that single-family homes are being converted to rental properties for students. In turn, this is "driving away middle-income residents who are a valuable asset to the city."[48]

Officials say that losing middle-income residents in Charlottesville has hurt the public school system. The community's assistant superintendent stated that the city projects an 8 percent drop in public school enrollment over the next 10 years.[49] The Charlottesville City Council is currently looking into more incentives to keep residents in the community and to upgrade their home rather than to relocate.

Chapel Hill, NC, home of the University of North Carolina at Chapel Hill, faces similar housing issues. With roughly 9,000 undergraduate students living off campus (4,500 in the city of Chapel Hill alone),[50] many investors view buying single-family homes and renting them to students a highly profitable endeavor. As more homes are converted to rentals the supply of single-family homes decreases. One resident explains that "[Chapel Hill] students drive the rental market and scarcity drives up the prices. The people most affected by this problem are working class families…"[51] According to the community, only 18 percent of the houses sold in the Chapel Hill area in 2003 were deemed "affordable" for the average household, down from 21 percent in 2002.[52]

Chapel Hill also recognizes other negative affects of rental conversions. According to the town officials, nearly 33 percent of Chapel Hill's nuisance complaints took place in rental conversions closest to the central part of campus.[53] Chapel Hill's Comprehensive Plan currently states the need to "implement a strategy to address the effects on neighborhoods of the conversion of owner-occupied residences to rental properties."[54]

<u>The Value of Homeownership in a Community</u>

Raising homeownership rates in the United States and in local communities is a broadly shared policy objective. There is a general consensus that benefits such as increased household wealth, self-satisfaction, improved child outcomes, involvement within a community, etc. are associated with homeownership.

Dietz (2003) surveyed numerous studies from the social sciences, medicine, psychology, and other academic fields to analyze the social effects of homeownership. He found four major areas of social benefits to homeowners with respect to their families and communities:[55]

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[48] Id.
[49] Id. at p. 2.
[50] Chapel Hill Community Indicators 2004 Data Book. UNC data is from 2003.
[51] Mitchell, M. "Winning the Housing Crisis." The Lilith Collective, Work Issue.
[52] Chapel Hill Community Indicators 2004 Data Book at page S-5.
[53] Id. at page S-8.
[54] Id. at page S-8.
[55] Dietz, R. (2003). *The Social Consequences of Homeownership*. Ohio State University Department of Economics and Center for Urban and Regional Analysis.

- Children of homeowners are more likely to finish high school, perform better on school achievement tests and have fewer behavioral problems;
- Political activity is higher among homeowners than renters;
- Homeowners are generally more satisfied with their lives;
- Homeownership in neighborhoods enhances property values.

Some economists argue that available empirical analyses that attempt to measure the impact of homeownership rates do not account for other variables and therefore results may be "suspect."[56] However, most agree that there is a correlation between homeownership rates and various social benefits. DiPasquale, et. al., (1998) conclude that "standard economic incentives (both the effects of [home] ownership and tenure) influence investment in social capital, just as surely as they influence investment in physical or human capital…while it is likely that homeownership generates positive externalities, we have no measure of the size of these externalities…"[57]

Expanding homeownership is one of the top priorities for the Bush administration, and has also been one for past administrations. According to the Bush administration, homeownership is important because it is:

- <u>good for families</u>: owning a home provides a sense of security and allows families to build wealth. A home is the largest financial investment most American families will ever make, and it allows families to build financial security as the equity in its home increases. Moreover, a home is a tangible asset that provides a family with borrowing power to finance important needs, such as the education of children;

- <u>good for communities</u>**:** homeowners work to maintain the value of their investment, which translates into a greater concern for neighborhoods and surrounding communities. A family that owns its home is more likely to upgrade the property, to take pride in its neighborhood, and to feel invested in the community. When citizens become homeowners, they become stakeholders as well. By increasing the ranks of stakeholders, communities not only enjoy increased stability but also benefit from a new spirit of revitalization.[58]

E. Research Implications

The implications of the literature review and the analysis of College Park-specific data are far-reaching. While many economists simply assume that price controls generally and rent regulations specifically produce unambiguously poor outcomes, this assumption is not cleanly supported by the data.

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[56] Haurin, D., Dietz, R. & Weinberg, B. (2003). *The Impact of Neighborhood Homeownership Rates: A Review of the Theoretical and Empirical Literature*. Journal of Housing Research, 13 (2), 119-151.
[57] DiPasquale, D. & Glaeser, E. (1998). *Incentives and Social Capital: Are Homeowners Better Citizens?* Journal of Urban Economics 45, 354-384.
[58] Policies in Focus-Homeownership. The White House (www.whitehouse.gov).

Below, we review the implications of the research and analysis performed on behalf of the City of College Park by issue. Where possible, the study team has attempted to characterize the likely impact of the draft rent stabilization program. Naturally, an important variable that cannot now be measured or estimated is implementation. Outcomes associated with the draft rent stabilization program will be a function of the quality of implementation and the nature and flexibility of Board decisions.

Housing Maintenance in a Rent-Controlled Environment

Pollakowski (1999) and Kutty (1996) found no consistent relationship between controlled and uncontrolled markets with respect to the quality of housing maintenance. Pollakowski found that in certain instances, housing maintenance was actually greater in the controlled housing stock.

Kutty determined that reductions in maintenance do not necessarily occur under all forms of rent regulations. The College Park draft plan includes the following provisions that suggest that the housing maintenance impact is not only unclear, but could be positive under certain circumstances. These provisions include:

§127-7.C

In making individual adjustments of the rent ceiling, the Board shall consider the purposes or this chapter and shall specifically consider all relevant factors, including . . .

2. unavoidable increases . . . in maintenance and operating expenses;
3. the cost of planned or completed capital improvements to the rental unit, where such capital improvements are necessary to bring the property into compliance or maintain compliance with applicable local code requirements affecting health and safety, and where such capital improvement costs are properly amortized over the life of the improvement;
8. the landlord's rate of return on investment. In determining such return, all relevant factors . . . shall be considered.

These provisions signify that the Board has substantial flexibility in determining the rate of return enjoyed by landlords, and their collective incentive to maintain and improve property. Effective code enforcement also places a floor on the extent to which individual properties can deteriorate.

Impact on the Level of New Construction

There is no clear empirical relationship between the existence of rent regulations in a particular community and the extent of new construction. The study team's literature review finds that under certain circumstances, new construction has been stifled by the imposition of controls. But the literature review also identified research suggesting no negative impact.

Downs (1988) concludes that there is "no persuasive evidence that [rent] controls significantly reduce construction."[59] Researchers believe other factors, including cyclicality in the local economy, provide better explanations for shifts in the pace of construction over time.[60]

The College Park rent stabilization program draft would exempt most new construction currently taking place in the city. The Program specifically exempts apartment buildings, rental units in any college or school dormitory operated exclusively for educational purposes, and hotels, motels and inns (§127-2B-E). The rent stabilization program for the most part would affect already constructed housing, and therefore its impact on the level of new construction is likely to be minimal.

Special Issues in College Towns

The study team's research indicates that college towns consistently share a set of housing challenges. In College Park, MD, Charlottesville, VA and Chapel Hill, NC, there is a pattern of declining homeownership, diminished housing affordability, and rising code violations. For example, in Charlottesville, owner-occupied units declined 38 percent over eight years.[61] In Chapel Hill, only 18 percent of homes sold in the area were deemed affordable in 2003.[62] Chapel Hill also reports that nearly a third of its nuisance complaints occurred in rental conversions most proximate to the central part of campus.[63] College Park's draft rental stabilization program attempts to deal with these trends directly by creating greater incentive to maintain housing as owner-occupied and by limiting annual rates of rent increase.

Homeownership – Declining in College Park, MD

Self-satisfaction, community involvement, and increased household wealth are a few of the documented benefits of homeownership in a community. Most economists agree that there is a strong correlation between homeownership rates and specific social benefits. Dietz (2003) reports that homeowners are generally more satisfied with their lives and more politically active than renters. He also concluded that children of homeowners tend to have fewer behavioral problems and are more likely to finish high school. Raising homeownership rates has been one of the top priorities of the nation's past and present presidential administrations.

The City of College Park has experienced a decline in homeownership rates over the past four years. Estimates for 2004 indicate that 57.4 percent of the City's occupied units are owner-occupied, down from 59.2 percent in 2000.[64] Consequently, renter occupied units in College Park have increased from 40.8 percent in 2000 to 42.6 percent in 2004.

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[59] Downs, A. (1988). *Residential Rent Controls: An Evaluation*. Urban Land Institute.
[60] Arnott, R. (1995) at p. 112
[61] Rubin, D. "City fights to keep local homeowners." Cavalier Daily, September 1999.
[62] Chapel Hill Community Indicators 2004 Data Book at page S-5.
[63] Chapel Hill Community Indicators 2004 Data Book at page S-8.
[64] ACCRA data subscribed to by SPG.

College Park's current 57.4 percent homeownership rate is lower than current rates for Prince George's County (63.1%), Maryland (68.8%) and the United States (69.2%). By reducing the incentive to convert owner-occupied housing into rental housing, the draft rent stabilization program supports higher homeownership by promoting a greater supply of owner-occupied stock.

Reinforcement of homeownership is arguably the most compelling aspect of the College Park draft rent stabilization program. As is the case in all large university towns, College Park's ability to house its student population is of paramount concern. However, policymakers should identify ways to house students that generate the least social opportunity cost (i.e., the cost of low owner occupancy).

Recent trends indicate that students are increasingly being housed in formerly owner-occupied housing. From a social perspective, housing students in this manner is inefficient. The broader community suffers the social cost of diminished homeownership; a loss that the market transaction fails to capture.

Rather than forego the social benefits of broad homeownership, College Park should consider policies that allow students to occupy units developed specifically for rental purposes. This strategy would minimize the opportunity cost of foregone owner occupancy. If enacted, the draft rent stabilization program would contribute to minimizing this social opportunity cost, thereby unleashing greater efficiencies in College Park, Maryland's housing market.

Housing Affordability - Rising Rents in College Park

Although College Park's median household income is lower than Prince George's County's, that of the Washington, D.C. Metropolitan Area and that of Maryland, the City's average rent is higher. U.S. Census data indicate that median monthly rent in College Park was $791 in 2000, 22 percent higher than in 1990 ($650). This compares to $700/month in Prince George's County, $763/month in the Washington, D.C. MSA and $620 a month in Maryland.

The share of units that rent for $1,000 or more a month is also higher in College Park than in every comparison geographic area. Roughly 30 percent of College Park's rental units rented for $1,000 or more a month in 2000, up from 10 percent in 1990. This compares to a 7.4 percent share in Prince George's County, a 19.7 percent share in the D.C. Metro and a 9.2 percent share in Maryland. College Park's rent stabilization program promotes the predictable presence of a stock of housing that is affordable to students and permanent residents alike.

Code Violations are More Concentrated in the Residential Rental Stock

For the past two years, residential rental units in College Park have reported the majority (55%) of first notice code violations. In 2004, the average number of first notice violations per residential rental unit was 0.78. Owner occupied units reported roughly 0.21 first notice code violations per unit in 2004.

In other words, on a per unit basis, residential rental units generate 3.7 times more violations than owner occupied ones. By limiting the number of residential rental conversion, the City of College Park's rent stabilization program will likely contribute to fewer violations and thereby reduce the cost of code enforcement.

F. Conclusion – There is a Rational Basis for Rent Stabilization in College Park

A review of available literature coupled with an analysis of College Park-specific data suggests that there is a rational basis for the draft rent stabilization program. The Program is likely to be conducive to the following desired policy outcomes:

- stable rents that promote housing affordability;
- enhanced homeownership; and
- fewer violations of the City Code.

The same review and analysis find that the likelihood of potential negative impacts is unclear. Among the possible negative impacts are:

- lower maintenance of rental units due to reduction in landlord's predicted rate of return; and
- reduction in the level of new construction because of developer concern that the scope of rent control will broaden over time.

Other communities that have introduced rent stabilization programs have reported mixed results with respect to maintenance and the level of new construction. In some instances, rent controlled communities reported fewer maintenance deficiencies than uncontrolled ones.

The impact on new construction is equally ambiguous. Factors such as the state of the local economy and the stage of the local real estate cycle appear to have greater impact on the level of construction than the presence of rent stabilization or lack thereof.

Predicting the impact of rent stabilization on the level of new construction is particularly difficult in the context of the draft College Park ordinance. The draft ordinance specifically exempts numerous development categories, including apartments. Because of the ambiguous effects on housing maintenance and the level of new construction, the tax revenue implications of the draft College Park rent stabilization ordinance are also unclear. In the final analysis, a comprehensive consideration of the draft rent stabilization in College Park, MD yields the conclusion that there is a rational basis for a stabilization program.

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